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AGENDA ITEM 7b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** International Equity Manager Annual Review
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Renew the contracts of CalPERS' 19 International managers listed below for a period of one year. Wilshire Associates' opinion letter is shown in Attachment 1. Wilshire Associates' disclosure letter is shown in Attachment 2.

Active All-World ex-U.S. Equity Managers

Acadian Asset Management	Baillie Gifford
AllianceBernstein (Growth)	Grantham, Mayo, Van Otterloo (GMO)
AllianceBernstein (Value)	New Star Institutional Managers
Arrowstreet Capital	Robeco USA

Enhanced Indexing Developed-Markets Equity Managers

AQR Capital Management	Baring International Investments
Barclays Global Investors	Quantitative Mgmt. Assoc. (QMA)

Active European Equity Managers

AXA Rosenberg	Capital Guardian
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Active Pacific Basin Equity Manager

Nomura Asset Management

Active Emerging Markets Equity Managers

AllianceBernstein	Genesis Asset Managers
Dimensional Fund Advisors	

Passive Developed Markets Equity Index Fund Manager

State Street Global Advisors

IV. ANALYSIS:

Executive Summary

The performance of the external international equity manager program for the fiscal year ending June 30, 2006 was positive. The active program performance was 1.13% above benchmark, while the externally managed index fund tracked the benchmark closely at 0.19% above the benchmark.

A number of actions have been taken with the active manager program over the last fiscal year. Eight new managers have been funded: four All-World ex-U.S. managers and four enhanced indexing developed market managers. In addition, one underperforming manager resigned. At its May 15, 2006 meeting, the Investment Committee approved a pool of active international developed equity managers and a pool of emerging market equity managers. Some of these managers may be funded in the current fiscal year.

At its August 14, 2006 meeting, the Investment Committee approved the staff recommendation to move the passive index fund assets managed by State Street Global Advisors to internal management. Staff is recommending renewal of the State Street Global Advisors contract for one year but will exercise the 30-day termination provision in the contract when it is ready to transition the assets.

Background

CalPERS' external international equity program consists of 14 active managers, 4 enhanced indexing fund managers, and one passive index fund manager. These managers were hired or rehired by the Investment Committee over multiple years, including two from 1989 when CalPERS began investing in international equity markets. Arrowstreet is a graduate from the Manager Development Program.

During the last fiscal year, there were multiple changes to the external international equity manager program. Two Spring-fed Pools were created with managers funded from each. Four managers were funded from the active All-World ex-U.S. Spring-fed Pool and four were funded from the International Enhanced Indexing Spring-fed Pool. Most of the assets came from the passive index, resulting in passive international funds moving from 77% of the international program at the end of the 04/05 fiscal year to 61% at the end of this fiscal year. Funding for the new managers also came from the resignation this year of one poorly performing manager.

All of the international managers have one year renewable contracts contingent upon the Investment Committee's annual approval as recommended in this agenda item. Each contract also contains a provision allowing for termination upon 30 days notice.

Assets under Management

As of June 30, 2006, total assets under management by the external international managers reviewed in this agenda item were approximately \$30.8 billion. Table 1 shows the assets managed by each manager as of this date.

Table 1

Manager	Mandate	Portfolio Value (in \$ millions)	Portfolio Percent
Acadian Asset Management	All-World ex-U.S.	1,062.7	3.5
AllianceBernstein (Growth)	All-World ex-U.S.	536.5	1.7
AllianceBernstein (Value)	All-World ex-U.S.	605.0	2.0
Arrowstreet Capital	All-World ex-U.S.	928.9	3.0
Baillie Gifford	All-World ex-U.S.	982.7	3.2
Grantham, Mayo, Van Otterloo & Co.	All-World ex-U.S.	927.2	3.0
New Star Institutional Managers	All-World ex-U.S.	556.7	1.8
Robeco USA	All-World ex-U.S.	511.9	1.7
Total Active All-World ex-U.S. Equity		6,111.6	19.9
AQR Capital Management	Enhanced Developed	1,037.7	3.4
Baring International Investments	Enhanced Developed	946.0	3.1
Barclays Global Investors	Enhanced Developed	1,172.5	3.8
QMA	Enhanced Developed	813.2	2.6
Total Int'l Enhanced Indexing		3,969.4	12.9
AXA Rosenberg	Europe	1,179.5	3.8
Capital Guardian	Europe	641.8	2.1
Total Active Europe Equity		1,821.3	5.9
Nomura Asset Management	Pacific Basin	1,051.4	3.4
Total Active Pacific Basin Equity		1,051.4	3.4
AllianceBernstein Institutional	Emerging Mkts	1,533.9	5.0
Dimensional Fund Advisors	Emerging Mkts	1,507.4	4.9
Genesis Asset Managers	Emerging Mkts	1,503.3	4.9
Total Active Emerging Mkts Equity		4,544.6	14.8
Total Active International Equity		17,498.3	56.9
State Street Global Advisors	Passive Developed	13,269.3	43.1
Total External Int'l Equity		30,767.6	100.0

Source: State Street Bank

Market Environment

World equity markets surged early in the fiscal year amid renewed optimism about near-term economic and corporate earnings growth. The turnaround in sentiment from the end of FY 04-05 reflected mounting evidence that the global economic expansion remained on track despite record-breaking oil prices. As a result, global equity markets posted strong gains for the fiscal year, despite the decline in recent months amid growing concern that central banks would raise interest rates more than previously expected.

The decline in risk appetite over the last year was in stark contrast to the trend in recent years, when investors were willing to accept unusually high levels of risk to enhance returns. The pickup in volatility as the last fiscal year progressed can clearly be seen in the standard deviation of daily index returns, which toward the end of the fiscal year spiked higher globally. Those asset classes that had done best in the early part of the fiscal year—most notably emerging markets, small-cap equities, Japanese equities and commodities—did worst toward the end of the fiscal year. Growth stocks, which had regained leadership for most of the prior 12 months after lagging far behind for the prior five years—fit this trend. Growth indices sold off sharply as fears of rising interest rates made investors shun long-duration assets. In addition, fears that a global slowdown would end the nascent recovery in global capital spending depressed the tech sector, which has a higher weight in growth indices than in value.

As an indication of the strong performance in international equity markets during the fiscal year, the returns of the five custom international indices during this last fiscal year are shown below in Table 2. The strongest performer was the Custom FTSE All Emerging Index with a positive 33.04% return.

Table 2

Index	Return for the Year Ending June 30, 2006
Custom FTSE All World ex US	27.66%
Custom FTSE All World Europe	25.23%
Custom FTSE All World Asia Pacific	29.24%
Custom FTSE All Emerging	33.04%
Custom FTSE Developed ex US ex Tobacco	26.98%

Source: FTSE

Currency Effect

Despite a continued rise in U.S. interest rates, the U.S. dollar (USD) weakened against both the Euro and the British Pound Sterling for the one-year period ending June 30, 2006. During this same time, the dollar strengthened against the Japanese Yen due to a change in Japanese monetary policy, with an end to the quantitative easing policy used previously to keep the Japanese economy from entering a deflationary spiral. Overall, the weak dollar against the Euro and

Pound outweighed the strength against the Yen, boosting USD returns on foreign investments during the fiscal year.

Program Performance Objective

The performance objective of the passive portfolio differs from the performance objectives of the active portfolios. The passive portfolio's objective is to match the benchmark return and to minimize tracking error to the benchmark. The performance objective for the actively managed portfolios is to exceed the benchmark returns, net of management fees, over a full market cycle, considered to be three to five years.

The benchmark for each portfolio is customized to the manager's mandate and for CalPERS' permissible equity market list. The active All-World ex-U.S., Europe, and Pacific Basin managers are benchmarked to custom FTSE indices which exclude non-permissible equity markets. The emerging markets managers are benchmarked to a custom FTSE index which includes only permissible emerging equity markets. The enhanced indexing managers are benchmarked to the custom FTSE Developed Market Index. The passive developed markets index manager is benchmarked to a custom FTSE index which includes only developed market countries and excludes tobacco related equities. The active international equity program in aggregate is benchmarked to a custom asset weighted benchmark of all active portfolios' benchmarks.

Program Performance

Over the 2005/2006 fiscal year, the CalPERS International Equity Active portfolio in aggregate outperformed the custom benchmark by 1.13%. Since inception of July 31, 1989, the active portfolio outperformed its benchmark by 1.65% on an annualized basis. All returns in this report are net of management fees and CFA Institute compliant.

Table 3 below details active portfolio composite returns over the most recent five fiscal years along with the annualized since inception returns. Program performance includes the performance of managers whose contracts have been terminated or who have resigned.

Table 3

International Equity Active Performance	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception
Total Active Intl All-World	(8.50)%	(8.55)%	27.86%	17.50%	29.66%	7.01%
Custom All World ex US Index	(8.76)%	(4.58)%	31.70%	16.91%	27.66%	7.09%
Active Return	0.26%	(3.97)%	(3.84)%	0.59%	2.00%	(0.08)%
Total Active Intl Europe	(5.58)%	(6.94)%	28.42%	16.64%	28.21%	11.77%
Custom Europe Index	(7.59)%	(4.72)%	28.82%	17.14%	25.22%	10.94%
Active Return	2.01%	(2.22)%	(0.40)%	(0.50)%	2.99%	0.83%

International Equity Active Performance	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Total Active Intl Pacific Basin	(6.40)%	(8.88)%	37.28%	10.16%	30.63%	5.05%
Custom Asia Pacific Index	(10.76)%	(8.72)%	38.42%	11.82%	29.24%	0.90%
Active Return	4.36%	(0.16)%	(1.14)%	(1.66)%	1.39%	4.15%
Total Intl Enhanced Indexing	N/A	N/A	N/A	N/A	N/A	14.55%
Custom Developed Mkt Index	N/A	N/A	N/A	N/A	N/A	14.78%
Active Return						(0.23)%
Total Active Intl Emerging Mkts	N/A	(0.63)%	34.38%	42.95%	32.01%	31.43%
Custom Emerging Index	N/A	(2.49)%	33.45%	35.11%	33.04%	28.18%
Active Return		1.86%	0.93%	7.84%	(1.03)%	3.25%
Total Active Only Intl	(7.70)%	(6.83)%	29.48%	23.99%	31.37%	8.12%
Weighted Composite benchmark	(9.47)%	(4.19)%	31.40%	21.98%	30.24%	6.47%
Active Return	1.77%	(2.64)%	(1.92)%	2.01%	1.13%	1.65%

Source: State Street Bank Returns are net of fees and CFA compliant.

*Inception Date: 7/31/89 except for Emerging Markets at 8/1/02 and Enhanced Indexing at 10/1/05.

The passive portfolio tracked its benchmark closely with an outperformance of 0.19% during this fiscal year. Since inception of July 31, 1989, the passive portfolio also tracked its benchmark closely with underperformance of 0.18%. This longer term performance has been negatively affected by rebalancing constraints which CalPERS lifted as of January 1, 1996. Table 4 below details the external passive portfolio performance over the most recent five fiscal years along with the annualized since inception return. All returns in this report are net of management fees and CFA Institute compliant.

Table 4

International Equity Passive Performance	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Total Passive Only Intl	(9.08)%	(4.68)%	31.55%	15.07%	27.17%	5.95%
Custom All World ex US	(9.02)%	(5.10)%	31.55%	14.88%	26.98%	6.13%
Return difference	(0.06)%	0.42%	0.00%	0.19%	0.19%	(0.18)%

Source: State Street Bank Returns are net of fees and CFA compliant.

*Inception Date: 7/31/89

Table 5 below shows the individual managers' returns comprising the aggregate active portfolio returns. Commentary on each manager is contained in the individual manager reports beginning on page 9 of this agenda item.

Table 5

Active Managers	Fiscal Year 01/02 Active Return	Fiscal Year 02/03 Active Return	Fiscal Year 03/04 Active Return	Fiscal Year 04/05 Active Return	Fiscal Year 05/06 Active Return	Since Inception Annualized Active Return through June 30, 2006	Inception
Active All-World Mgrs							
Acadian Asset Mgmt	NA	NA	NA	NA	NA	1.66%	Dec 2005
AllianceBernstein (Growth)	NA	NA	NA	NA	NA	(2.34)%	Oct 2005
AllianceBernstein (Value)	NA	NA	NA	NA	NA	5.69%	Oct 2005
Arrowstreet Capital*	NA	(2.74)%	(4.60)%	6.96%	1.41%	0.34%	Feb 2003
Baillie Gifford*	0.11%	(0.90)%	(7.23)%	5.16%	7.44%	0.94%	Jun 2001
GMO*	11.28%	3.46%	1.69%	(0.64)%	(1.11)%	3.99%	Jun 2001
New Star Institutional Mgrs	NA	NA	NA	NA	NA	(2.93)%	Oct 2005
Robeco USA*	0.34%	(2.32)%	(4.04)%	0.60%	2.69%	(0.60)%	Aug 2001
Int'l Enhanced Indexing Mgrs							
AQR Capital Management	NA	NA	NA	NA	NA	(1.57)%	Dec 2005
Baring International	NA	NA	NA	NA	NA	0.01%	Nov 2005
Barclays Global Investors	NA	NA	NA	NA	NA	0.67%	Oct 2005
QMA	NA	NA	NA	NA	NA	(0.03)%	Apr 2006
Active Europe Mgrs							
Axa Rosenberg*	2.47%	(0.78)%	0.44%	2.23%	4.79%	2.50%	Feb 2001
Capital Guardian*	1.47%	0.29%	0.62%	(2.60)%	(0.24)%	(0.16)%	Feb 2001
Active Pacific Basin Mgr							
Nomura Asset Mgmt	6.66%	2.43%	0.86%	(0.56)%	1.39%	4.56%	Aug 1989
Active Emerging Mkt Mgrs							
AllianceBernstein*	NA	8.66%	1.65%	15.65%	1.98%	7.13%	Aug 2002
DFA*	NA	7.98%	2.62%	2.29%	(4.97)%	2.24%	Aug 2002
Genesis Asset Mgrs*	NA	(0.79)%	(2.50)%	6.52%	0.09%	0.71%	Aug 2002
Int'l Passive Index Fund							
State Street Global Advisors	(0.06)%	0.42%	0.00%	0.19%	0.19%	(0.18)	Aug 1989

Source: State Street Bank Returns are net of fees and CFA compliant

*First fiscal year shown is partial year based on inception date.

The following two charts highlight the program profile as of June 30, 2006. Chart 1 plots calendar-year absolute performance of the total active program and its benchmark, along with the cumulative active return of the total program since inception. Chart 2 plots the risk/return profile of each of the program components according to active return for actual level of tracking error. The size of the bubbles reflects the proportion of assets in each product as of June 30, 2006.

Chart 1

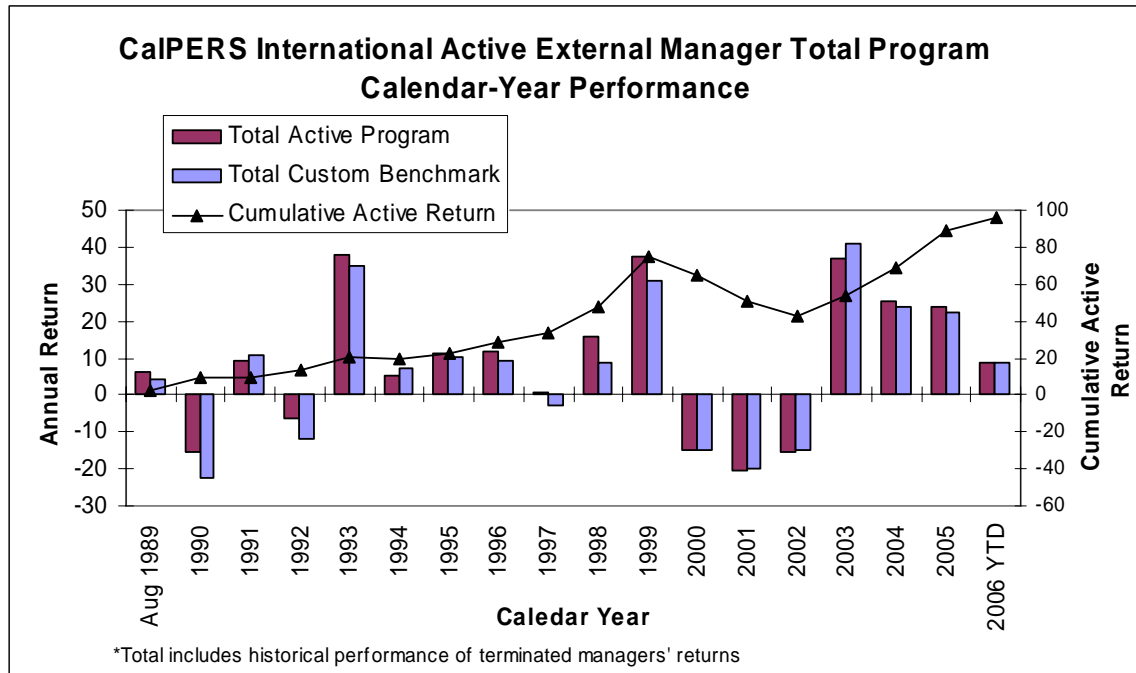
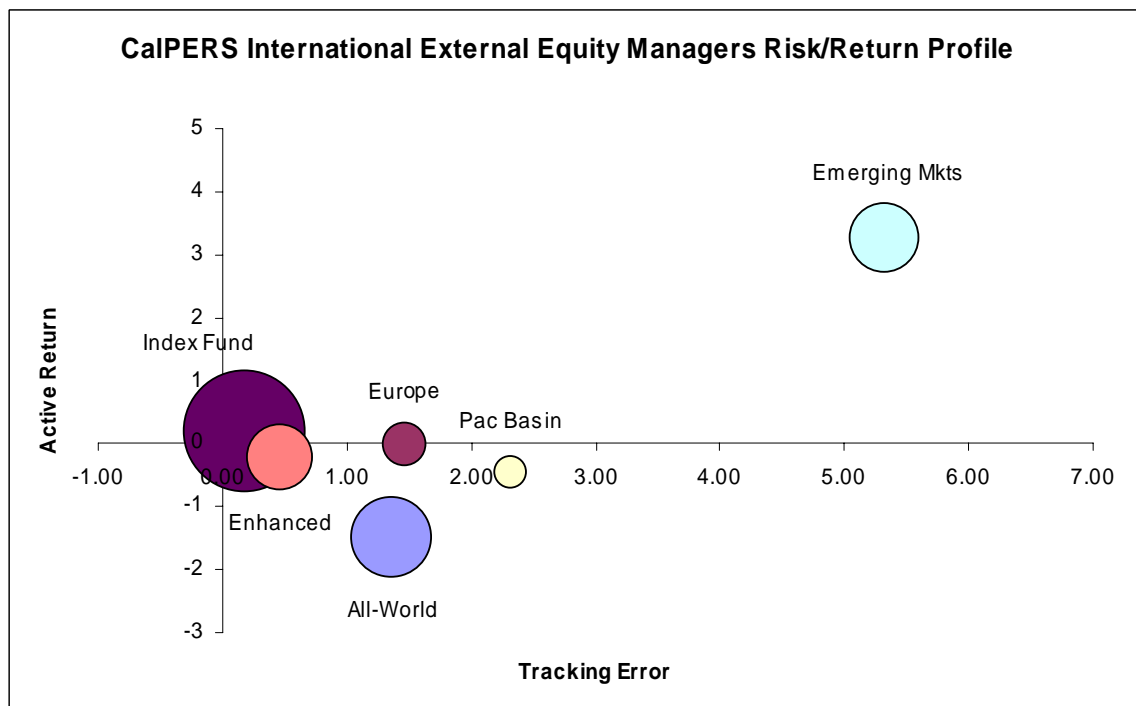


Chart 2 (Period reflected for managers' risk/return profile is July 2002 to June 2006, except for the enhanced managers is from October 2005 to June 2006.)



The following pages provide information on the managers in the international equity program. The performance shown for each manager is net of fees and CFA Institute compliant.

Individual Manager's Performance and Evaluation

Acadian Asset Managers (All-World International Equity)

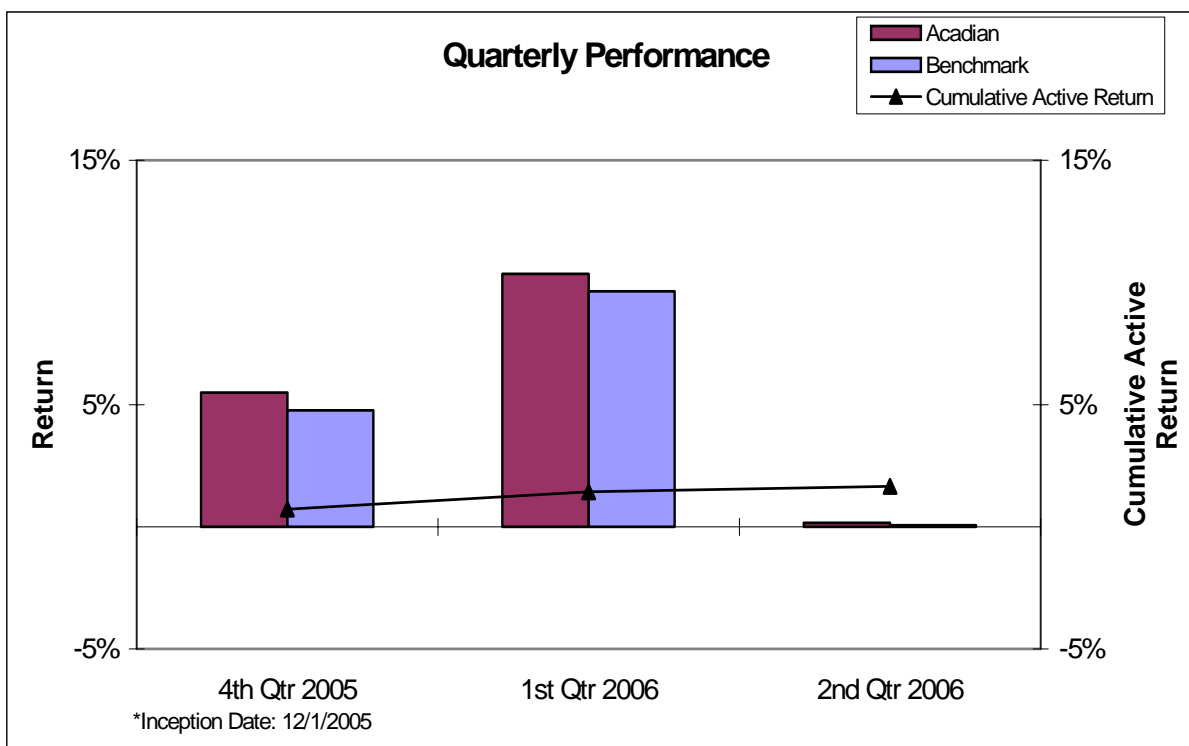
Acadian was funded on December 1, 2005. Acadian's model driven investment process evaluates a broad range of fundamental predictive factors, such as price to value, earnings growth, and price momentum. Portfolios are created using an optimizer, which selects the most attractive stocks in the investment universe while controlling for benchmark-relative risk and expected transaction costs. The portfolio typically holds around 100-200 stocks.

Since its inception date through June 30, 2006, Acadian outperformed its benchmark by 1.66%. This outperformance was due in large part to good stock selection in the United Kingdom in the health care and consumer discretionary sectors. Assets under management as of June 30, 2006 were \$1.06 billion.

International Equity Manager	Month Ending 12/05	Qtr Ending 03/06	Qtr Ending 06/06	Cumulative Since Inception*
Acadian	5.49%	10.35%	0.17%	16.60%
Benchmark	4.77%	9.64%	0.06%	14.94%
Active Return	0.72%	0.71%	0.11%	1.66%

*Inception Date 12/1/05 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Acadian's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures Acadian's cumulative performance relative to the benchmark.



AllianceBernstein (All-World International Equity - Growth)

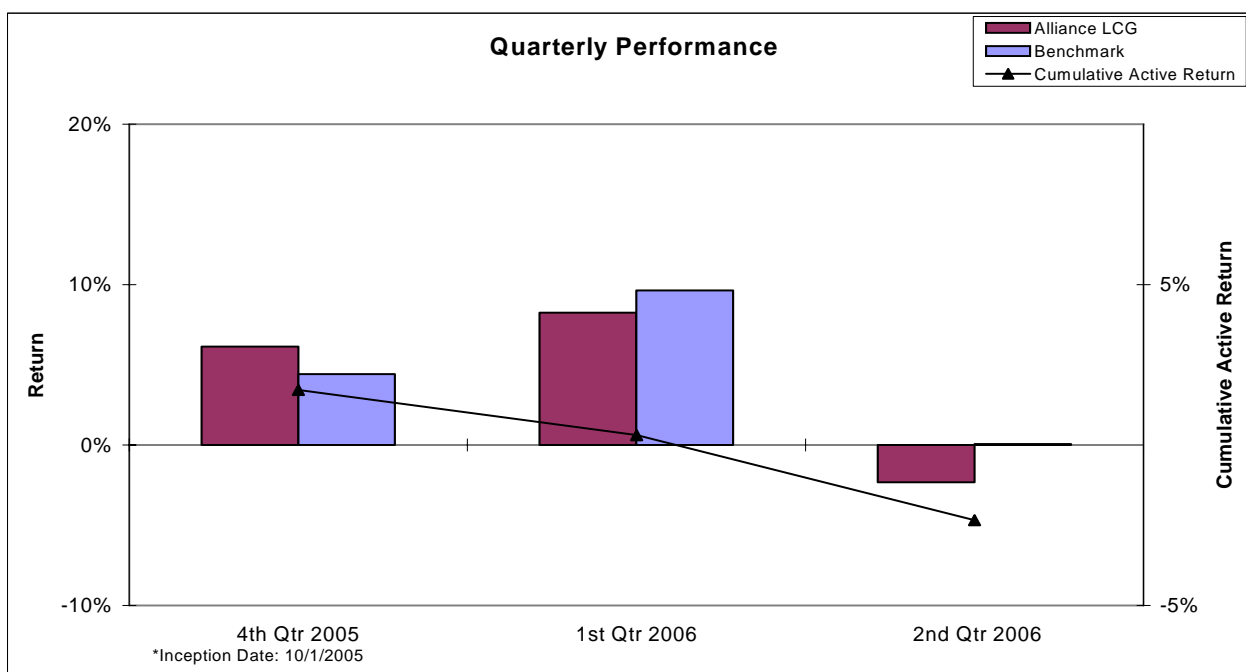
The AllianceBernstein Large Cap Growth portfolio was funded on October 1, 2005. The investment process relies on a fundamental research-driven stock selection process incorporating a quantitative ranking. The Portfolio Oversight Group builds a concentrated portfolio from these two inputs. The goal of the investment process is to build a portfolio that capitalizes on the unique insights of the fundamental research within the optimal risk/reward framework. The portfolio holds a maximum of 85 stocks.

Since inception through June 30, 2006, AllianceBernstein Large Cap Growth has underperformed its benchmark by 2.34%. This underperformance was due to stock selection across several countries including France and the United Kingdom. Assets under management as of June 30, 2006 were \$536.6 million.

International Equity Manager	Qtr Ending 12/05	Qtr Ending 03/06	Qtr Ending 06/06	Cumulative Since Inception*
AllianceBernstein	6.14%	8.25%	(2.33)%	12.22%
Benchmark	4.42%	9.64%	0.06%	14.56%
Active Return	1.72%	(1.39)%	(2.39)%	(2.34)%

*Inception Date 10/1/05 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Alliance Large Cap Growth's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures Alliance's cumulative performance relative to the benchmark.



AllianceBernstein (All-World International Equity - Value)

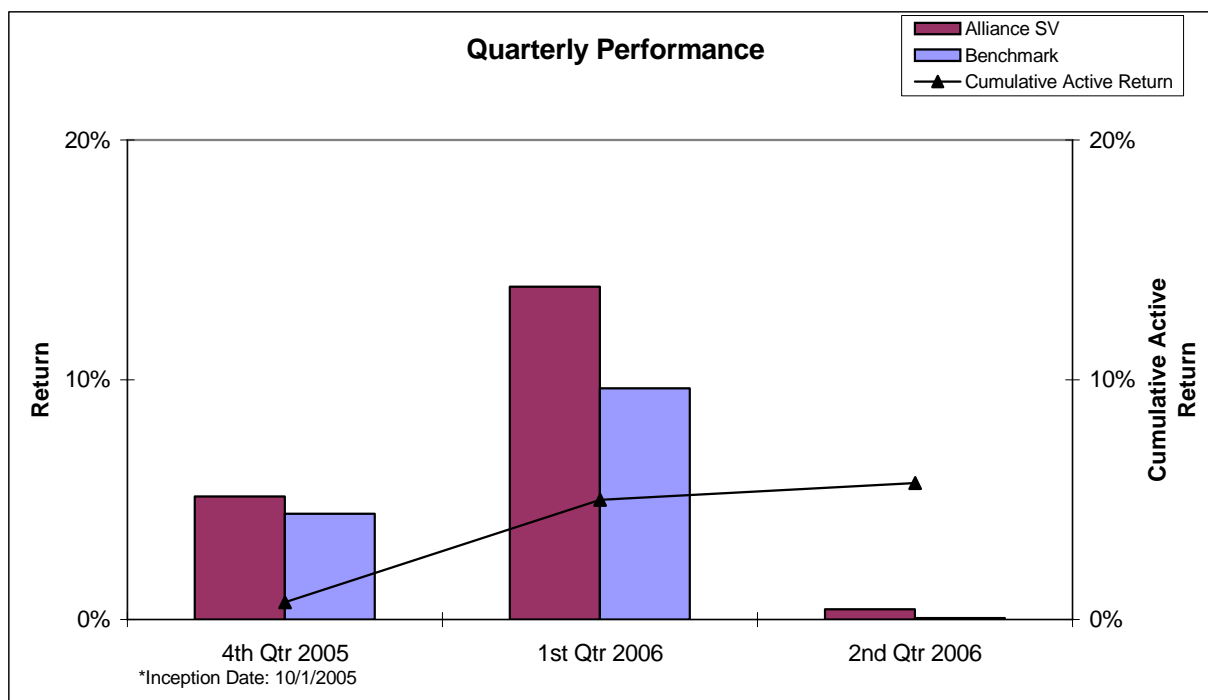
The AllianceBernstein Strategic Value portfolio was funded on October 1, 2005. The investment process focuses on the combination of securities and countries that will deliver the highest expected risk-adjusted return. The stock selection process is based on the use of proprietary quantitative tools to rank stocks and detailed analyst research to select stocks for the portfolio. The portfolio holds a maximum of 70 stocks.

Since inception through June 30, 2006, the AllianceBernstein Strategic Value portfolio has outperformed its benchmark by 5.69%. This outperformance was due to good stock selection primarily in the Canadian energy sector. Assets under management as of June 30, 2006 were \$605.0 million.

International Equity Manager	Qtr Ending 12/05	Qtr Ending 03/06	Qtr Ending 06/06	Cumulative Since Inception*
AllianceBernstein	5.14%	13.88%	0.43%	20.25%
Benchmark	4.42%	9.64%	0.06%	14.56%
Active Return	0.72%	4.24%	0.37%	5.69%

*Inception Date 10/1/05 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Alliance Strategic Value's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures Alliance's cumulative performance relative to the benchmark.



AllianceBernstein (Emerging Markets Equity)

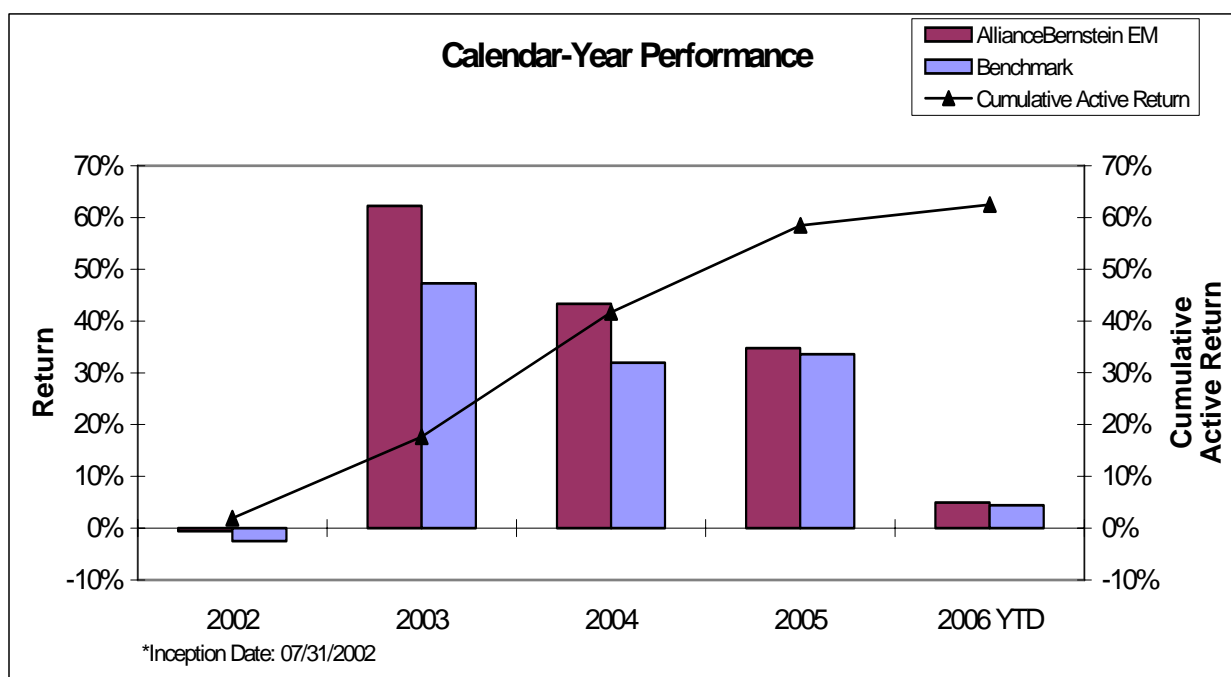
AllianceBernstein was funded on August 1, 2002. This emerging market portfolio has a value style of investing with both a macro country analysis and a micro stock selection process. The country analysis seeks to obtain the best balance of long-term return and risk among the emerging markets that meet AllianceBernstein's investability criteria and comply with the CalPERS Permissible Equity Market list. The portfolio typically holds around 100 stocks.

Since its inception date through June 30, 2006, AllianceBernstein outperformed its benchmark by 7.13% annualized. The outperformance was due to both good stock selection and country allocation decisions. Assets under management as of June 30, 2006 were \$1.53 billion.

International Equity Manager	Fiscal Year 02/03*	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
AllianceBernstein	18.88%	35.10%	50.76%	35.02%	35.31%
Benchmark	10.22%	33.45%	35.11%	33.04%	28.18%
Active Return	8.66%	1.65%	15.65%	1.98%	7.13%

*Inception Date 07/31/2002 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows AllianceBernstein's emerging market performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures AllianceBernstein's cumulative performance relative to the benchmark.



AQR Capital Management (Developed Markets Enhanced Indexing)

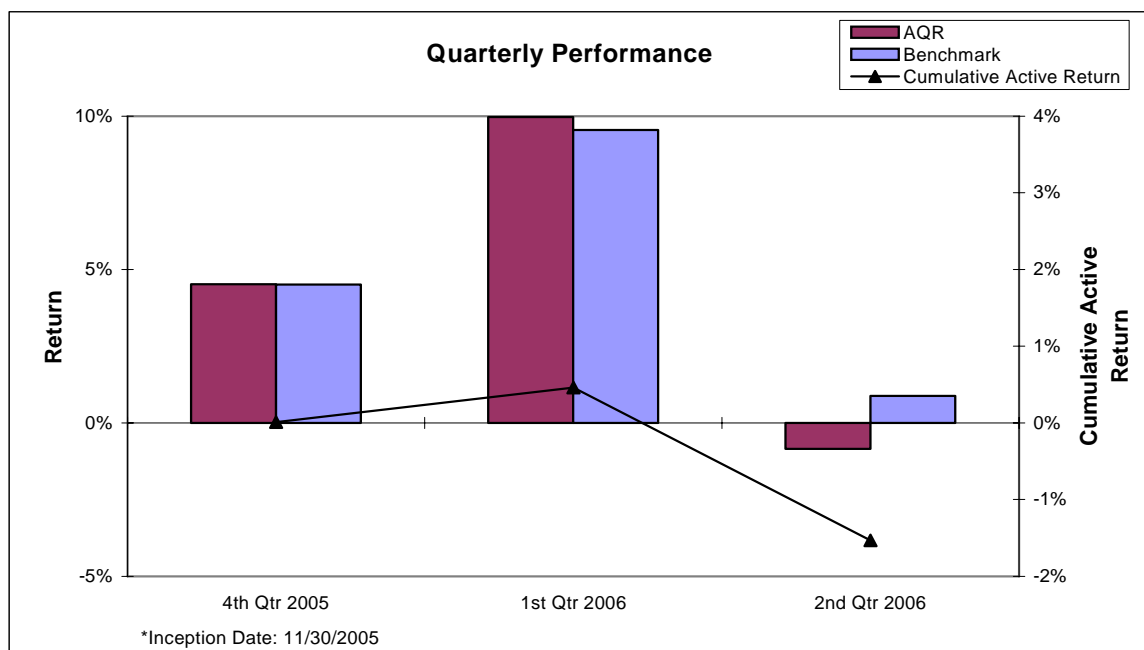
AQR Capital Management (AQR) was funded on December 1, 2005. The manager seeks to add value relative to its benchmark by both underweighting and overweighting stocks, countries, and currencies relative to the benchmark. An equity derivatives overlay is utilized to express the views of the investment manager's country selection models. The investment manager uses equity derivatives (either stock index futures or equity index swaps) to tactically overweight and underweight the portfolio's country exposures relative to the benchmark. A currency overlay is utilized to express the views of the investment manager's currency selection models. The investment manager uses FX forwards to tactically overweight and underweight the portfolio's foreign currency exposures relative to the benchmark.

From its inception date through June 30, 2006, AQR underperformed its benchmark by 1.57%. Weak stock selection, particularly in Europe, drove the portfolio's underperformance. Assets under management as of June 30, 2006 were \$1.04 billion.

International Equity Manager	4 th Quarter 2005*	1 st Quarter 2006	2 nd Quarter 2006	Cumulative Since Inception*
AQR	4.52%	9.97%	(0.89)%	13.93%
Benchmark	4.51%	9.55%	0.88%	15.50%
Active Return	(0.01)%	0.42%	(1.77)%	(1.57)%

*Inception Date 11/30/05 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows AQR's performance versus its benchmark. The axis on the left measures AQR's quarterly performance against its benchmark and the axis on the right measures AQR's cumulative performance relative to the benchmark.



Arrowstreet Capital (All-World International Equity)

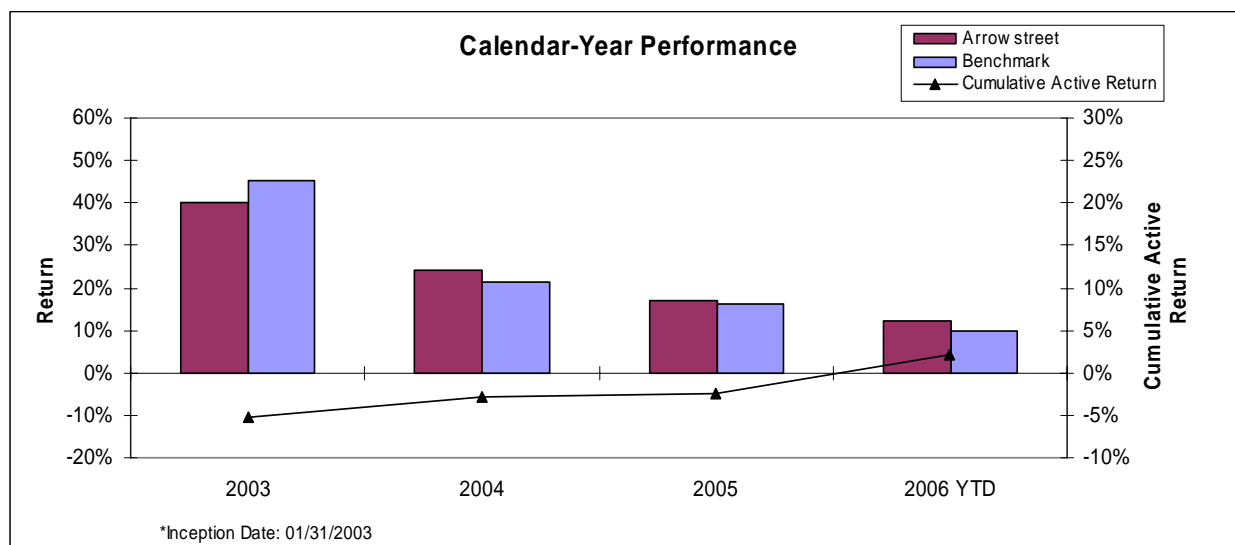
Arrowstreet Capital, a graduate of the Manager Development Program, was funded on February 1, 2003 as an active international equity mainstream manager. Arrowstreet uses a quantitative approach to evaluate a large universe of securities for multiple sources of excess return. The multiple sources include both behavioral and informational factors such as valuation, momentum, size, and estimate revisions. An optimal portfolio is developed using a proprietary optimization process that evaluates the trade-off among forecast returns for each security, several measures of risk, transaction costs, and any defined client constraints.

Arrowstreet outperformed its benchmark during the fiscal year ending June 30, 2006 by 1.41%. An overweight in Brazilian resource stocks, driven by the increase in oil prices, was the primary driver of the outperformance. Assets under management as of June 30, 2006 were \$928.9 million.

International Equity Manager	Fiscal Year 02/03*	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Arrowstreet	12.04%	27.10%	23.87%	29.07	27.23%
Benchmark	14.78%	31.70%	16.91%	27.66	26.89%
Active Return	(2.74)%	(4.60)%	6.96%	1.41	0.34%

*Inception Date: 01/31/2003 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Arrowstreet's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Arrowstreet's cumulative performance relative to the benchmark.



AXA Rosenberg (European Equity)

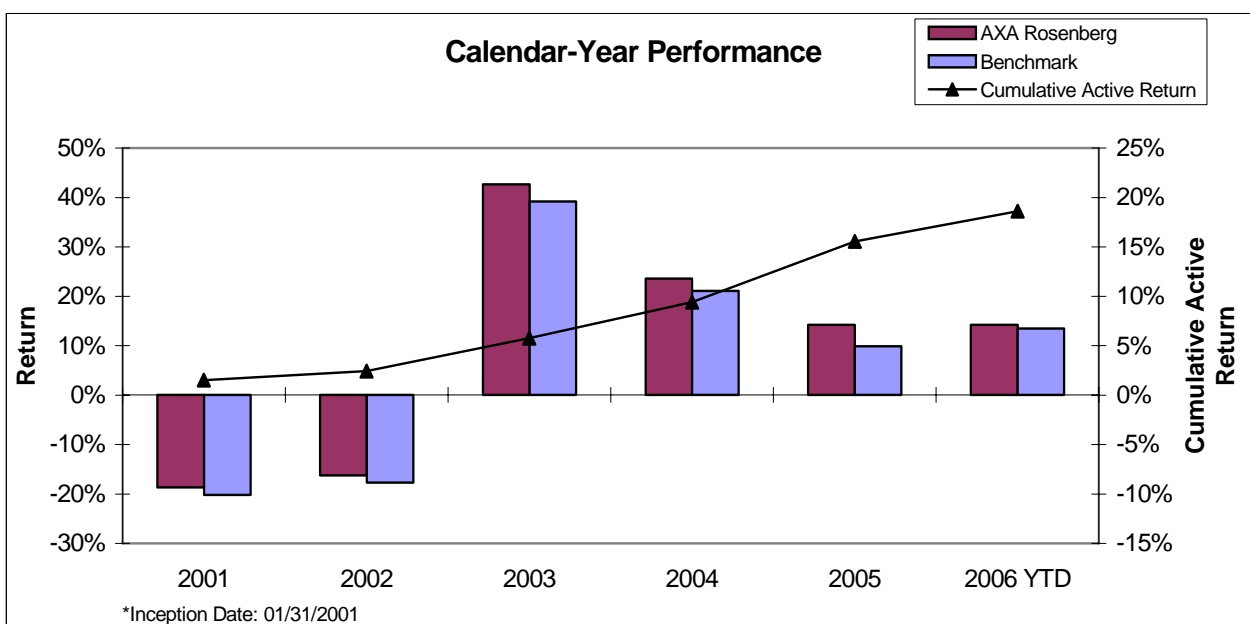
AXA Rosenberg was funded on February 1, 2001. AXA uses a quantitative process to find undervalued stocks relative to their industry, sector, and market capitalization. There are several quantitative models in this process, including a risk model which builds a portfolio with the most attractive risk-return trade off. The AXA portfolio holds between 100 and 150 stocks.

The table below shows AXA's performance relative to its benchmark since inception by fiscal year through June 30, 2006. Since inception, AXA has outperformed by 2.50% annualized primarily due to good stock and sector selection, particularly in the financial, consumer discretionary, and information technology sectors. Assets under management as of June 30, 2006 were \$1.18 billion.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
AXA Rosenberg	(5.12)%	(5.50)%	29.26%	19.37%	30.02%	8.63%
Benchmark	(7.59)%	(4.72)%	28.82%	17.14%	25.23%	6.13%
Active Return	2.47%	(0.78)%	0.44%	2.23%	4.79%	2.50%

*Inception Date: 01/31/2001 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows AXA's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures AXA's cumulative performance relative to the benchmark.



Baillie Gifford (All-World International Equity)

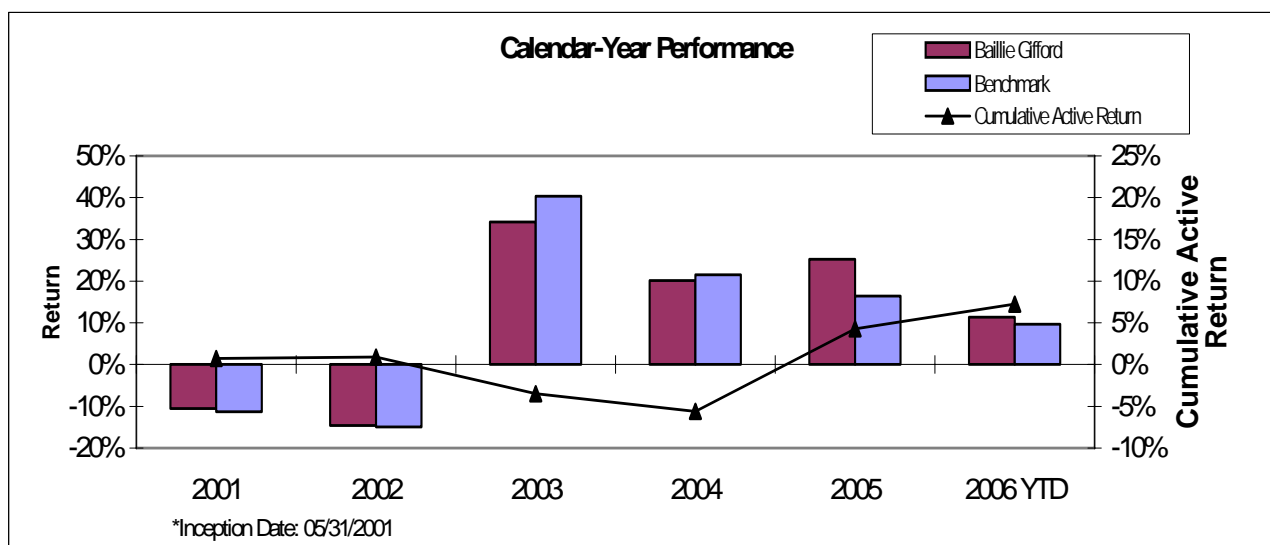
Baillie Gifford was funded on June 1, 2001. The firm's regionally organized stock selection teams identify high quality companies, using free cash flow to determine valuations. They then channel this company information to an Investment Policy Committee that determines overall regional allocation strategy. Country, sector, and stock deviation limits are set for the portfolio as a way of limiting risk. The portfolio holds between 100 and 150 stocks.

Baillie Gifford's style intentionally includes a growth bias. Both stock selection and allocations to countries and sectors contributed to the current fiscal year outperformance of 7.44%. Contributing significantly to positive relative performance were stock selections in energy, industrials, and mining. Assets under management as of June 30, 2006 were \$982.7 million.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Baillie Gifford	(8.65)%	(5.48)%	24.47%	22.07%	35.10%	11.22%
Benchmark	(8.76)%	(4.58)%	31.70%	16.91%	27.66%	10.28%
Active Return	0.11%	(0.90)%	(7.23)%	5.16%	7.44%	0.94%

*Inception Date: 05/31/2001 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Baillie Gifford's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Baillie Gifford's cumulative performance relative to the benchmark.



Barclays Global Investors (Developed Markets Enhanced Indexing)

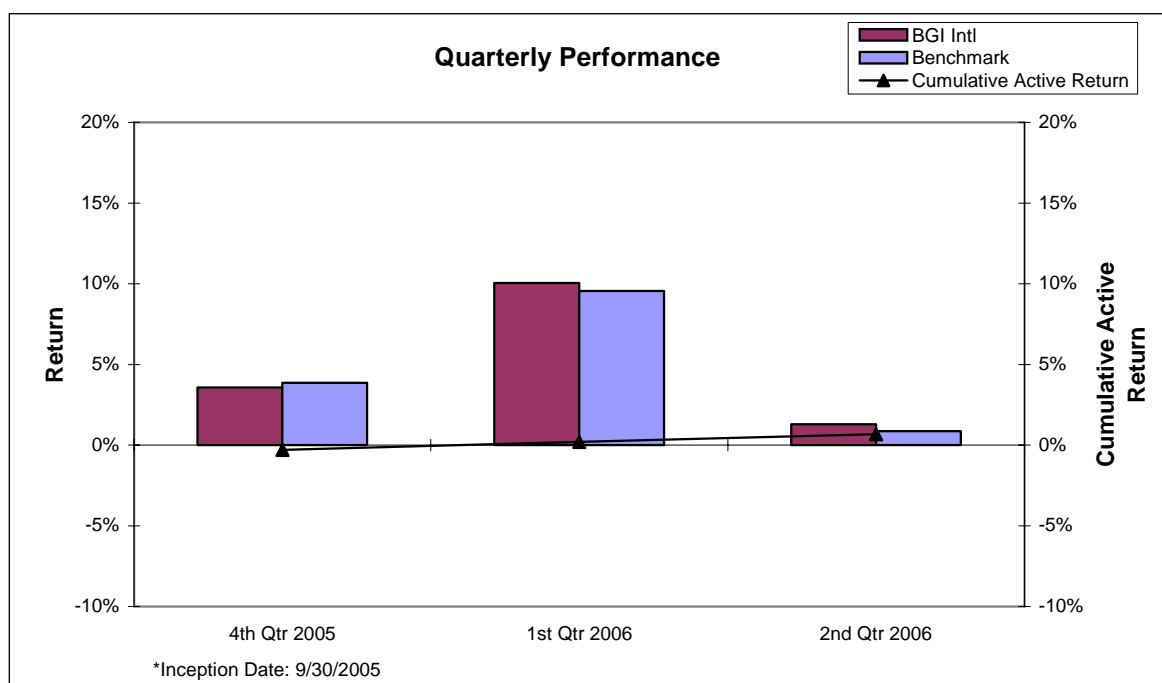
Barclays Global Investors (BGI) was funded on October 1, 2005. BGI's investment philosophy is that superior investment outcomes are most reliably achieved through total performance management - the management of return, risk, and cost. BGI evaluates stocks in terms of their expected "alpha" (excess return) through its CoreAlpha model, which serves as the foundation of its stock selection process. BGI then uses this information in a portfolio optimization process to construct portfolios that are index-like in their risk characteristics but have higher expected returns. The portfolio holdings typically range from 700-1200 securities.

From its inception date of September 30, 2005 through June 30, 2006, BGI outperformed its benchmark by 0.67%. Strong stock selection, particularly in Europe, drove the portfolio's outperformance. Assets under management as of June 30, 2006 were \$1.17 billion.

International Equity Manager	4 th Quarter 2005*	1 st Quarter 2006	2 nd Quarter 2006	Cumulative Since Inception*
BGI	3.57%	10.05%	1.29%	15.45%
Benchmark	3.86%	9.55%	0.88%	14.78%
Active Return	(0.29)%	0.50%	0.41%	0.67%

*Inception Date 9/30/05 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows BGI's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures BGI's cumulative performance relative to the benchmark.



Baring International Investments (Developed Markets Enhanced Indexing)

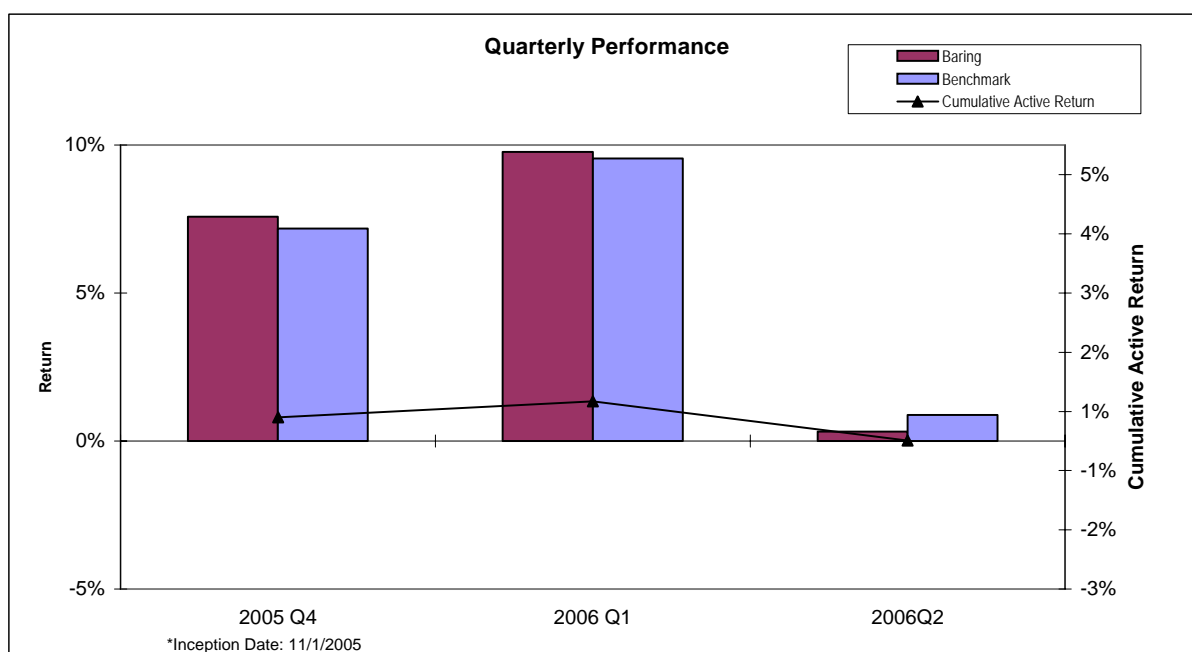
Baring was funded on November 1, 2005. This enhanced indexing product utilizes a combination of active country and sector allocations, active currency exposures, and passive stock selection within a risk-controlled framework to maximize the portfolio's information ratio. The manager applies a top-down approach and implements the program by allocating assets to EAFE country and sector funds. This provides efficiency and a low cost structure. Quantitative tools are used to 'see through' the index funds to approach the portfolio as a set of stocks.

Since inception, performance essentially matches the benchmark at 0.01% above the benchmark. During the second quarter of 2006, Baring's active positions detracted from performance as the market became more defensive due to concerns about inflation, interest rates, and energy prices. Assets under management as of June 30, 2006 were \$946.0 million.

International Equity Manager	4 th Quarter 2005	1 st Quarter 2006	2 nd Quarter 2006	Cumulative Since Inception*
Baring	7.58%	9.77%	0.32%	18.46%
Benchmark	7.18%	9.55%	0.88%	18.45%
Active Return	0.40%	0.22%	(0.56)%	0.01%

*Inception Date: 11/1/2005 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Baring's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures Baring's cumulative performance relative to the benchmark.



Capital Guardian (European Equity)

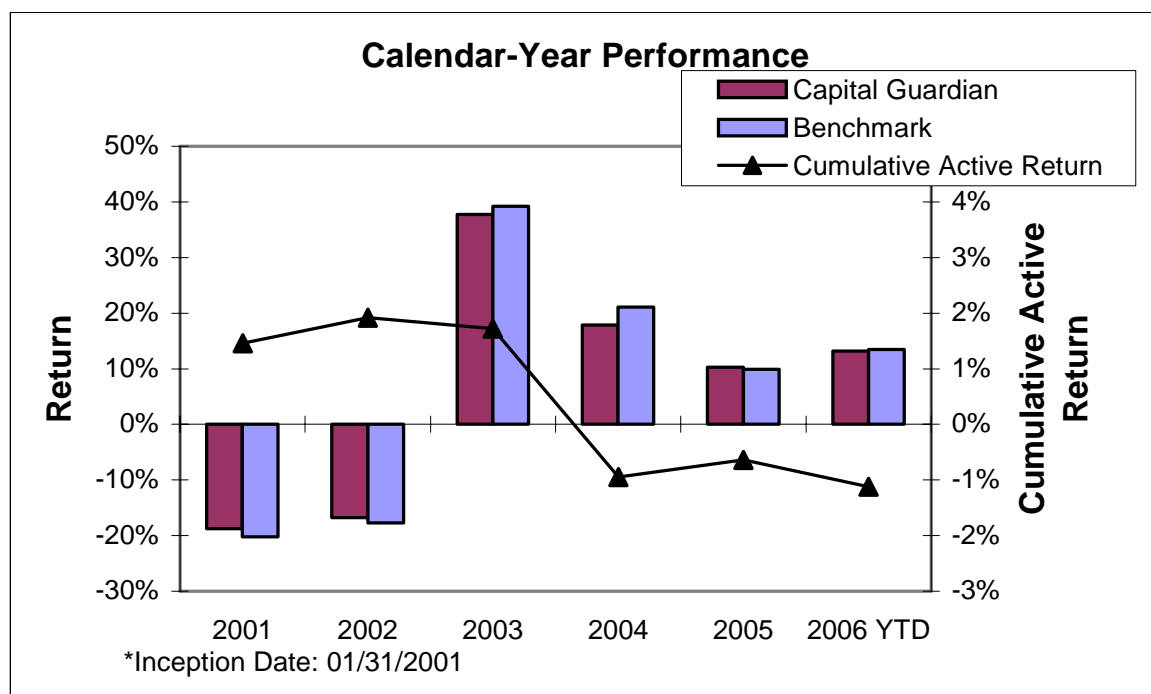
Capital Guardian was funded on February 1, 2001. This manager has a growth bias and utilizes a bottom-up investment process in a multiple portfolio manager structure. The portfolio is divided among several portfolio managers with each making independent investment decisions. The research team also manages a portion of the portfolio and is the primary resource for investment ideas for the portfolio managers. The Investment Policy Committee oversees all portfolios for consistency and risk control. The portfolio holds between 100 to 200 stocks.

Capital Guardian has underperformed by 0.16% annualized since inception. This underperformance is attributable to stock selection and sector allocation decisions. An overweight to the consumer discretionary and information technology sectors hurt performance. Assets under management as of June 30, 2006 were \$641.8 million.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Capital Guardian	(6.12)%	(4.43)%	29.44%	14.54%	24.99%	5.97%
Benchmark	(7.59)%	(4.72)%	28.82%	17.14%	25.23%	6.13%
Active Return	1.47%	0.29%	0.62%	(2.60)%	(0.24)%	(0.16)%

*Inception Date: 01/31/2001 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Capital's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Capital's cumulative performance relative to the benchmark.



Dimensional Fund Advisors (Emerging Markets Equity)

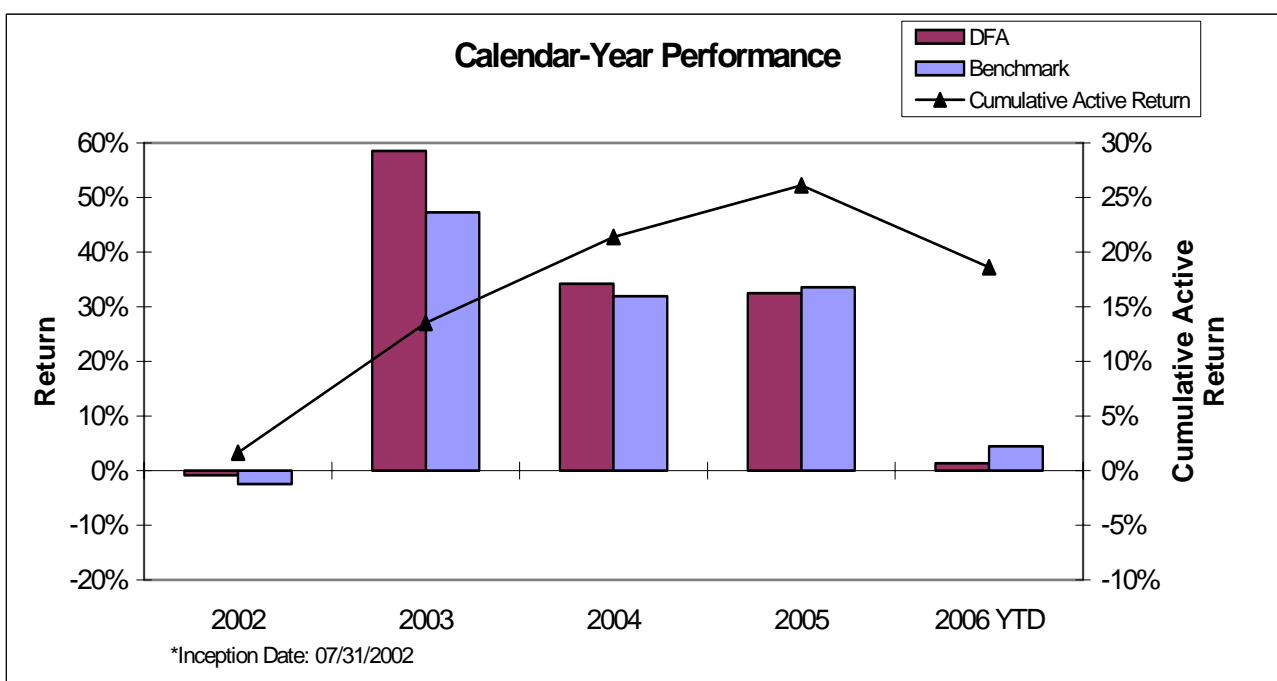
Dimensional Fund Advisors (DFA) was funded beginning on August 1, 2002. DFA invests in large, publicly traded companies representing the top 50% of each country's total market capitalization. In addition to CalPERS' Permissible Equity Markets list, each country in DFA's portfolio must pass DFA's quantitative and qualitative screening process and is assigned a fixed weight in the portfolio. KLD, a third party consultant for DFA, screens companies for issues associated with labor relations, human rights, and corporate social responsibility. The portfolio holds between 200 to 600 stocks.

Since inception through June 30, 2006, DFA has outperformed its benchmark by 2.24% annualized. This fiscal year underperformance of 4.97% was due to DFA's liquidity-based country selection process resulting in underweights to South Africa and South Korea and an overweight to Hungary. Assets under management as of June 30, 2006 were \$1.5 billion.

International Equity Manager	Fiscal Year 02/03*	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Dimensional Fund Advisors	18.20%	36.07%	37.40%	28.07%	30.42%
Benchmark	10.22%	33.45%	35.11%	33.04%	28.18%
Active Return	7.98%	2.62%	2.29%	(4.97)%	2.24%

*Inception Date: 07/31/2002 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows DFA's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures DFA's cumulative performance relative to the benchmark.



Genesis Asset Managers (Emerging Markets Equity)

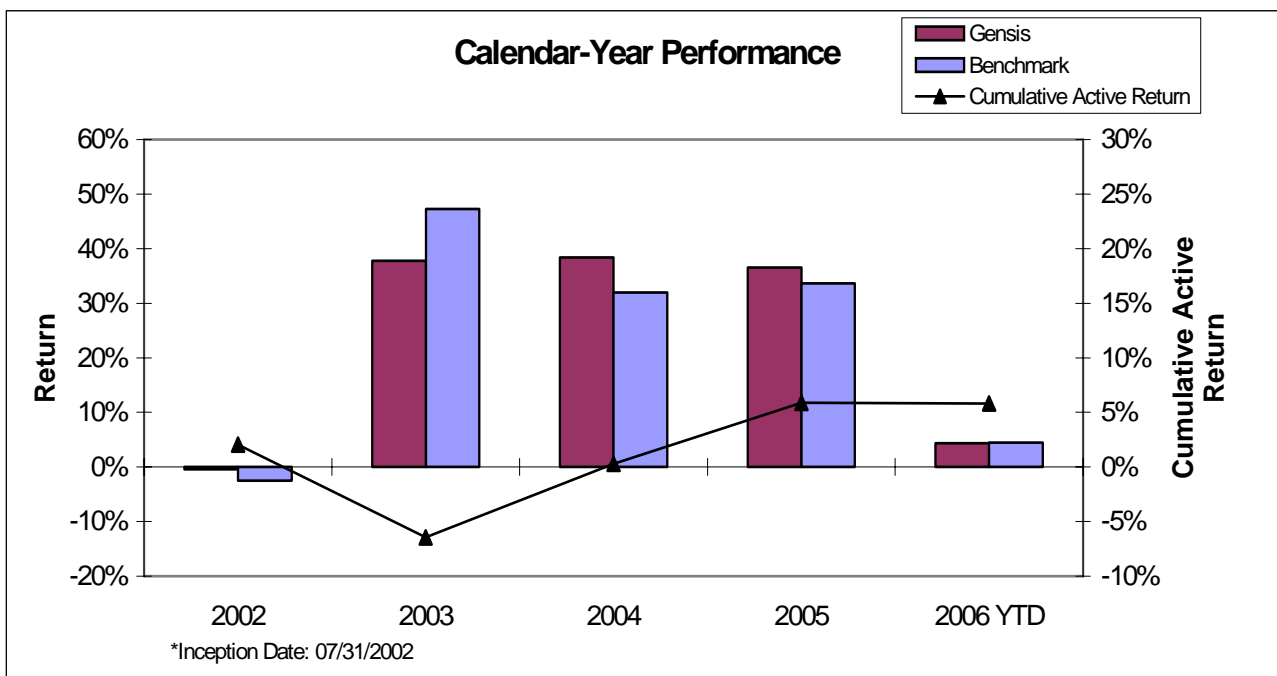
Genesis was funded on August 1, 2002. This manager's investment process utilizes a bottom-up stock selection approach. The country allocation of the portfolio is driven by the number of attractively priced stocks in the relevant markets within CalPERS' Permissible Equity Markets list. The stock selection approach identifies and focuses on those attractively priced companies positioned to benefit from the rapid change occurring in their emerging economies. Portfolio holdings are typically between 55 to 80 stocks.

Since inception through June 30, 2006, Genesis has outperformed its benchmark by 0.71% as shown below. A significant part of the outperformance was due to an underweight in Taiwan that was driven by the bottom-up stock selection process. Assets under management as of June 30, 2006 were \$1.50 billion.

International Equity Manager	Fiscal Year 02/03*	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Genesis	9.43%	30.95%	41.63%	33.13%	28.89%
Benchmark	10.22%	33.45%	35.11%	33.04%	28.18%
Active Return	(0.79)%	(2.50)%	6.52%	0.09%	0.71%

*Inception Date: 07/31/2002 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Genesis' performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Genesis' cumulative performance relative to the benchmark.



Grantham, Mayo, Van Otterloo & Co. (All-World International Equity)

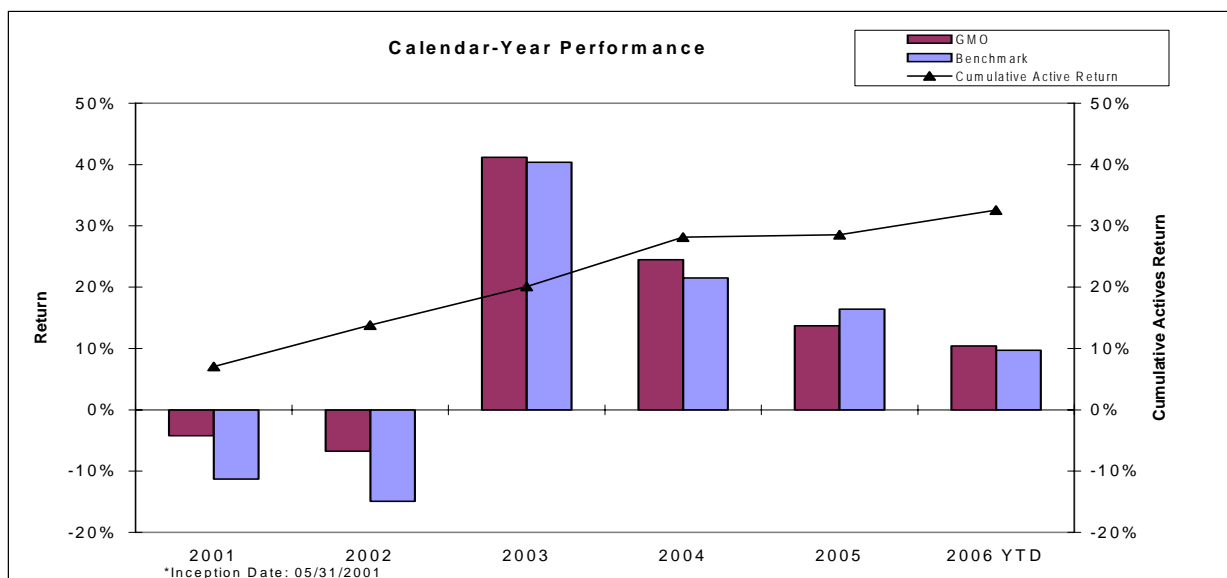
Grantham, Mayo, Van Otterloo & Co. (GMO), funded on June 1, 2001, believes the successful selection of value stocks leads to the best risk adjusted returns. The manager uses a combination of quantitative analysis and fundamental research to build a value portfolio. Stocks are sold when valuations are high and unsupported by the underlying fundamentals, or due to concerns about management or business changes. The portfolio typically holds between 200-250 stocks.

Stock selection and industry allocation contributed to the current fiscal year underperformance of 1.11%. Anticipating margin contractions in metals and mining, GMO reduced these exposures along with commodity holdings. This proved to be early and performance suffered. While GMO moved into other opportunities, these have not yet matured. However, as shown in the table below, this manager has outperformed since inception by 3.99%. Assets under management as of June 30, 2006 were \$927.2 million.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
GMO	2.52%	(1.12)%	33.39%	16.27%	26.55%	14.27%
Benchmark	(8.76)%	(4.58)%	31.70%	16.91%	27.66%	10.28%
Active Return	11.28%	3.46%	1.69%	(0.64)%	(1.11)%	3.99%

*Inception Date: 05/31/2001 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows GMO's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures GMO's cumulative performance relative to the benchmark.



New Star Institutional Managers (All-World International Equity)

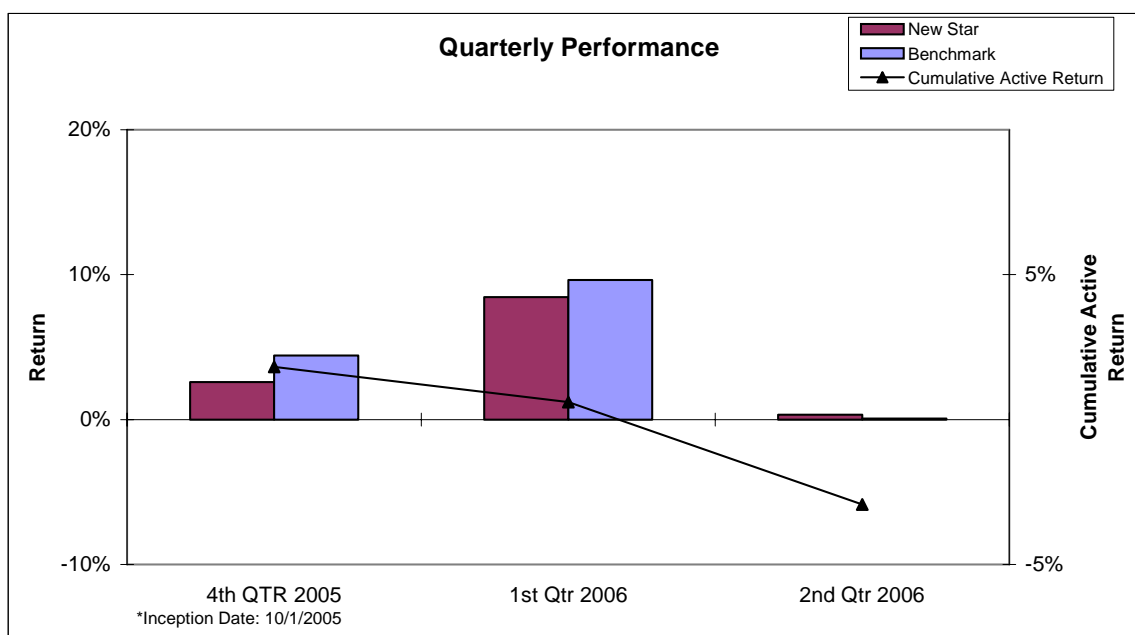
New Star was funded on October 1, 2005. The manager's process is research-driven, focusing on bottom-up fundamental company analysis with industry, sector, and regional analyses. The portfolio has a bias to those companies, industries, and countries that have superior long-term growth potential. The overall objective is to maximize exposure to the best market opportunities, while keeping the portfolio within acceptable risk tolerance levels and ensuring diversification of investment ideas. The portfolio holds between 80 to 130 stocks.

Since inception through June 30, 2006, New Star has underperformed its benchmark by 2.93%. This underperformance was due to New Star's stock selection in Japan across most sectors. Assets under management as of June 30, 2006 were \$556.7 million.

International Equity Manager	Qtr Ending 12/05	Qtr Ending 03/06	Qtr Ending 06/06	Cumulative Since Inception*
New Star	2.59%	8.44%	0.34%	11.63%
Benchmark	4.42%	9.64%	0.06%	14.56%
Active Return	(1.83%)	(1.2)%	0.28%	(2.93)%

*Inception Date: 10/1/2005 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows New Star's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures New Star's cumulative performance relative to the benchmark.



Nomura Asset Management (Pacific Basin Equity)

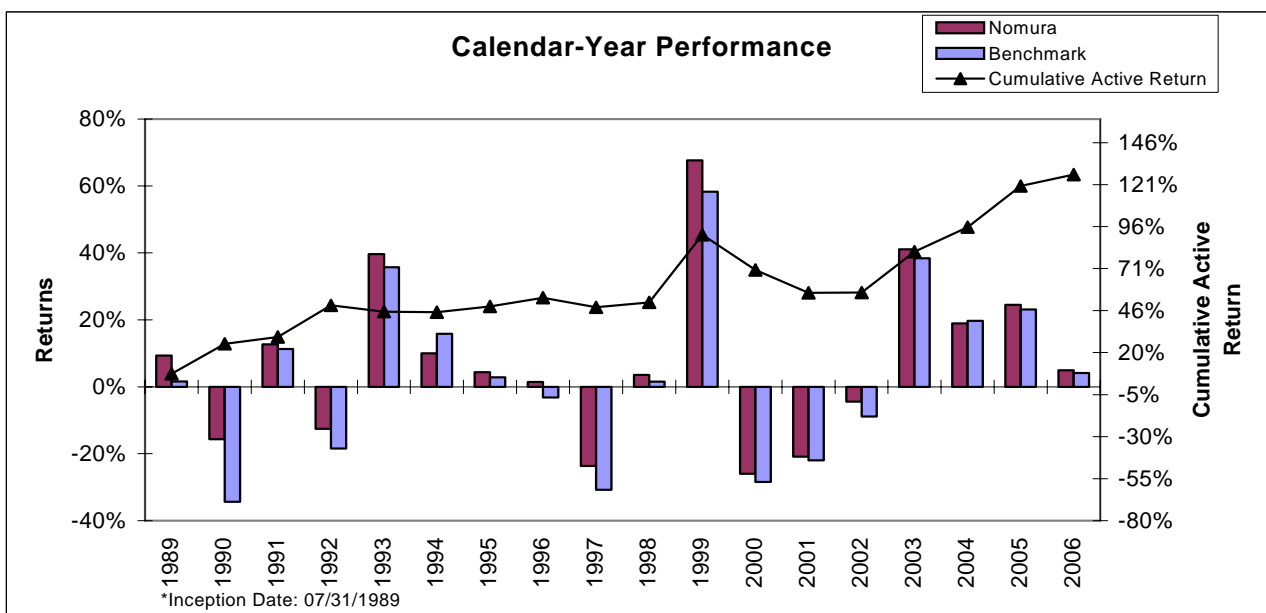
Nomura Asset Management (NAM) was funded on August 1, 1989 and was rehired in 1994 and 2001. NAM's investment process focuses on stock selection while considering the macroeconomic environment. The stock selection process targets companies with sustainable growth, utilizing a quantitative stock screening process and fundamental company analysis. The portfolio holds between 180 to 200 stocks.

NAM has outperformed its benchmark since inception of August 1989 through June 30, 2006 by 4.56% annualized. This since inception performance has been consistently attributable to positive stock selection in Japan. During this last fiscal year, NAM outperformed due to stock selection in both Japan and Australia. Assets under management as of June 30, 2006 were \$1.05 billion.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Nomura	(4.10)%	(6.29)%	39.26%	10.59%	30.63%	5.32%
Benchmark	(10.76)%	(8.72)%	38.40%	11.15%	29.24%	0.76%
Active Return	6.66%	2.43%	0.86%	(0.56)%	1.39%	4.56%

*Inception Date: 07/31/1989 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows NAM's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures NAM's cumulative performance relative to the benchmark.



Quantitative Management Associates (Developed Markets Enhanced Indexing)

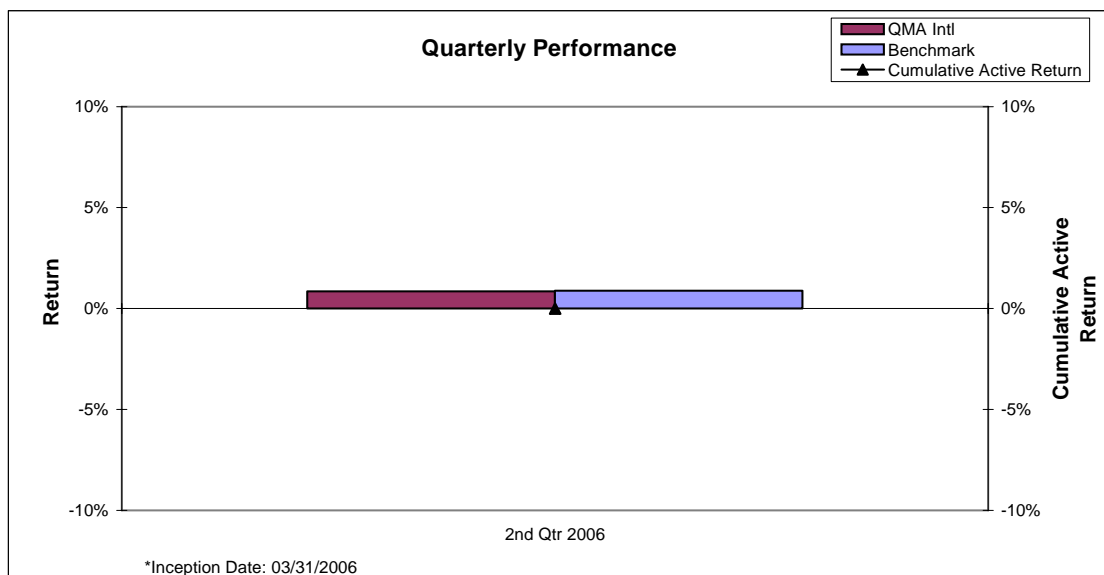
Quantitative Management Associates (QMA) was funded on April 1, 2006. QMA's investment process uses an objective, quantitative approach to exploit persistent, predictable mis-pricings. The strategy uses a three-step investment process. First, stocks are ranked according to their projected earnings growth rates, ranging from slow growth to fast growth. Second, different valuation models are applied to each category of stocks to calculate an expected return or alpha for each stock in the universe. Third, using an internally developed optimizer, the manager constructs a portfolio that maximizes expected alpha for a given level of active risk. The optimization program controls risk across multiple measures including size, value/growth, sector, industry, country and individual security. The portfolio holdings typically range from 400-600 securities.

The portfolio slightly underperformed its benchmark since its March 31, 2006 inception by 0.03%. Country allocation had a negative impact on performance. Assets under management as of June 30, 2006 were \$813.2 million.

International Equity Manager	2 nd Quarter 2006*	Cumulative Since Inception*
QMA	0.85%	0.85%
Benchmark	0.88%	0.88%
Active Return	(0.03)%	(0.03)%

*Inception Date: 3/31/06 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows QMA's performance versus its benchmark. The axis on the left measures the manager's quarterly performance against its benchmark. The right axis measures QMA's cumulative performance relative to the benchmark.



Robeco (All-World International Equity)

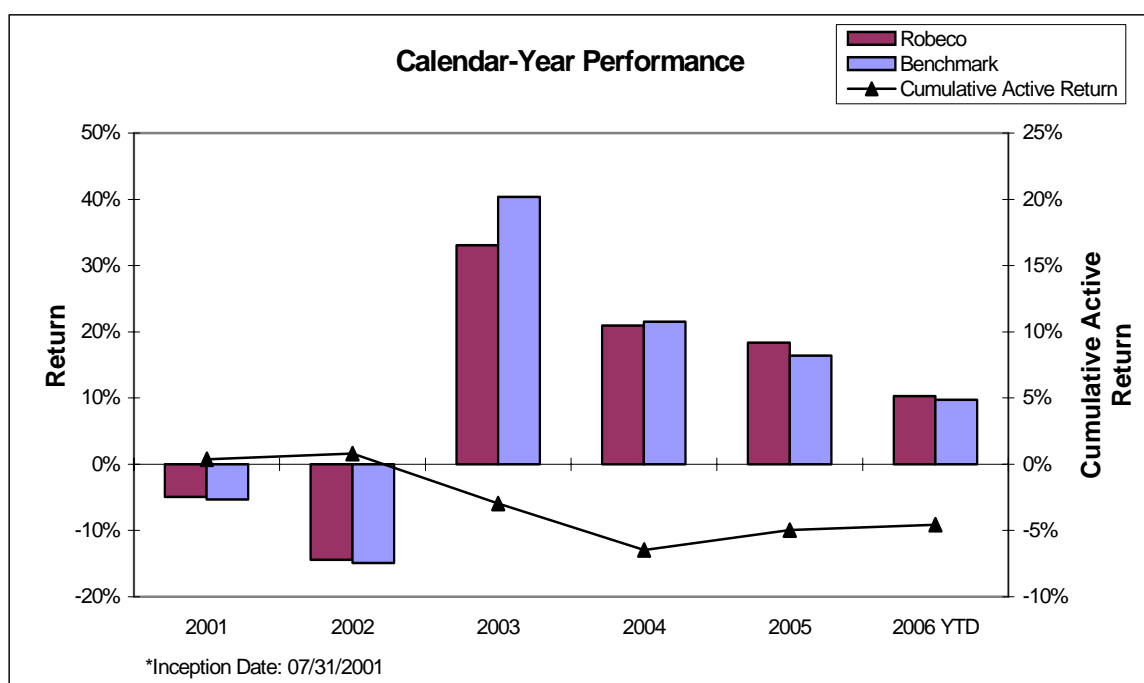
Robeco was funded on August 1, 2001. Robeco utilizes a research driven, quantitative investment process, which combines a top-down regional, currency and sector allocation with a bottom-up stock selection process. The Investment Policy Committee makes the top-down decisions. The stock selection process is the responsibility of investment teams of portfolio managers with different sector and country specializations. Holdings typically range from 120 to 160 stocks.

Robeco had its second consecutive fiscal year of outperformance relative to its benchmark. Superior country and sector selection along with solid stock picking drove the portfolio's relative outperformance. Since inception, Robeco has slightly underperformed its benchmark by 0.60% as shown in the table below. Assets under management as of June 30, 2006 were \$511.9 million.

International Equity Manager	Fiscal Year 01/02*	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
Robeco	(6.06)%	(6.90)%	27.66%	17.51%	30.35%	11.53%
Benchmark	(6.40)%	(4.58)%	31.70%	16.91%	27.66%	12.13%
Active Return	0.34%	(2.32)%	(4.04)%	0.60%	2.69%	(0.60)%

*Inception Date: 07/31/2001 Source: State Street Bank Returns are net of fees and CFA compliant.

The chart below shows Robeco's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Robeco's cumulative performance relative to the benchmark.



State Street Global Advisors (Passive Developed Markets Equity)

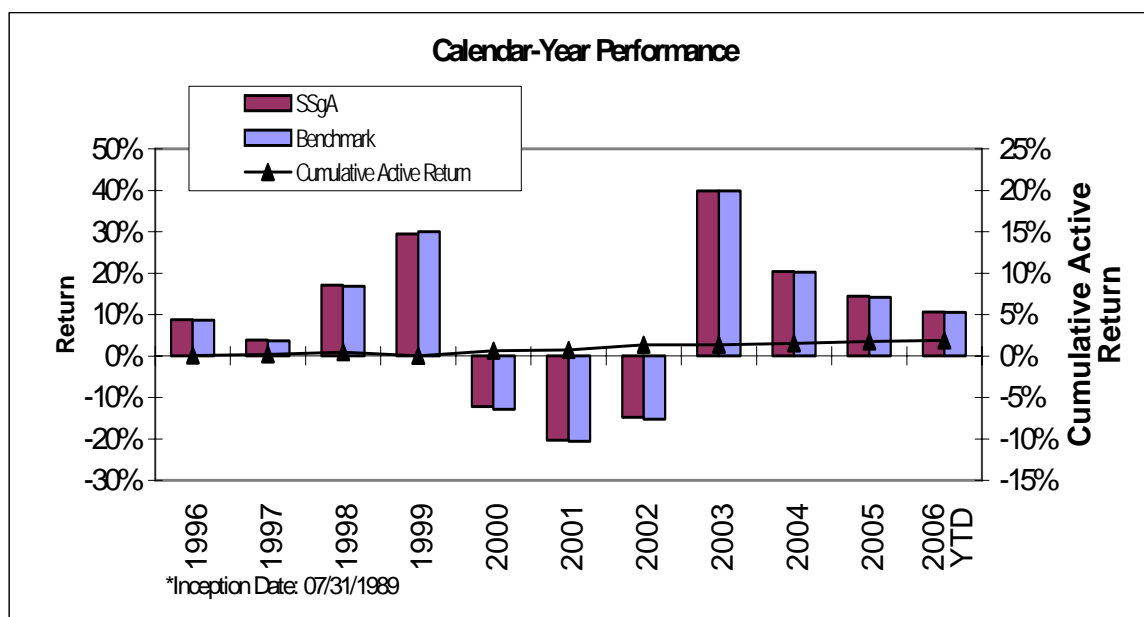
State Street Global Advisors (SSgA) was funded on August 1, 1989 and rehired in 1994 and 2002 as a passive international equity manager. SSgA's mandate has changed during the time the firm has managed money for CalPERS. Currently, its mandate is to provide diversified equity participation across and within developed international equity markets at a low cost. Assets under management as of June 30, 2006 were \$13.3 billion.

During the fiscal year, staff reduced the assets under SSgA's management by \$15.6 billion. Most of this amount was transferred to internal management of the same investment strategy. At its August 14, 2006 meeting, the Investment Committee approved the staff recommendation to move the passive index fund assets managed by SSgA to internal management. Staff is recommending renewal of the SSgA contact for one year but staff will exercise the 30-day termination provision in the contract when it is ready to transition the assets.

International Equity Manager	Fiscal Year 01/02	Fiscal Year 02/03	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Annualized Since Inception*
SSgA	(9.08)%	(4.68)%	31.55%	15.07%	27.17%	5.95%
Benchmark	(9.02)%	(5.10)%	31.55%	14.88%	26.98%	6.13%
Active Return	(0.06)%	0.42%	0.00%	0.19%	0.19%	(0.18)%

*Inception Date: 07/31/1989 Source: State Street Bank Returns are net of fees and CFA compliant.

The graph below shows SSgA's performance versus its benchmark for the last ten calendar years. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures SSgA's cumulative performance relative to the benchmark.



Note, cumulative active return reflected commences on January 1, 1996

Recommendation

Staff recommends renewal of the contracts for all nineteen international equity managers for a period of one year. Each contract contains a provision allowing for termination on 30 days' notice.

V. STRATEGIC PLANS:

External investment manager performance is monitored by staff and reported to the Investment Committee per CalPERS Strategic Plan, Goal VIII to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The purpose of this item is to renew external investment manager contracts for a one year time period and to keep the Investment Committee informed of the external international equity manager program performance.

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